Selling to Yourself: Continuation Funds in Private Equity

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Abstract

Continuation funds (CFs) are private equity structures in which a manager raises a new fund to purchase assets from their existing fund. This structure has surged in popularity, from five funds in 2018 to 150 in 2024. We use a hand-collected sample of 472 CFs to test a model in which heterogeneous preferences drive CFs. Consistent with the model's predictions, CFs emerge when LPs are more heterogeneous and managers have earned carried interest that they can roll. LPs typically choose to exit rather than invest, with this decision driven by both LP-level frictions and time varying LP liquidity demands.

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1. Introduction

Private equity (PE) funds are typically structured with a contractual ten-year lifespan. In recent years, however, this term has become more aspirational than realized. A dollar invested in private equity in 1994 led to about $0.20 of unrealized value in still-private companies ten years later (in 2004), whereas a dollar invested in 2014 still had $0.68 of unrealized exits by 2024.[1] This rise in long-held, unexited investments and so-called zombie funds poses significant challenges for the limited partners (LPs) who invest in PE. For pension plans, these long-lived funds can outlast not only the trustees who approved them but even the retirees they were meant to serve. Moreover, many LPs structure their PE portfolios on the assumption that young funds' capital calls will be funded by mature funds' exits, creating cash shortfalls when expected exits fail to materialize.

Continuation funds (CFs), which are also known as continuation vehicles, have emerged as a partial solution to these liquidity challenges. In a CF, a GP creates a new vehicle to purchase select assets from one or more of their existing "legacy" funds at a negotiated price. The legacy fund's LPs are given a choice: they can "roll" their investments into the CF or they can exit at the negotiated price. The cash used to buy out the exiting LPs is typically raised from funds of funds that specialize in secondary investments, although other legacy fund LPs, other outside investors, and even the managing PE firm's general partners (GPs) sometimes participate.

This structure has surged in popularity in recent years. Our data show that while just five CFs were launched in 2018, 150 were launched in 2024 and 2025 is on pace to be just as active. The 2024 CF vintage alone totals more than $80 billion, more than that year's $48 billion in IPOs and nearly half of the $194 billion in trade sales.[2] Yet despite its popularity, the CF structure is controversial: GPs represent and charge fees to both the (selling) legacy fund and the (buying) CF, creating conflicting incentives with respect to pricing, fees, and performance disclosure. LPs are often pushed for quick choices on whether to roll, which is challenging when LPs lack full information on these deals and may not have the organizational structures to evaluate them. In some cases, LPs have even blocked the use of these funds.[3] These tensions raise fundamental questions about why CFs exist and whom they serve.

[1] Figure 1 illustrates this point by plotting the RVPI of funds at the ten-year mark, using data from MSCI-Burgiss.
[2] Continuation Fund transaction values are based on our data; Evercore Private Capital Advisory (2025) reports similar numbers. Trade sale and IPO data are taken from S&P Global via Preqin.
[3] See, for example, Scoop: Shasta Venture fails to get approval for continuation fund.

We seek to understand the phenomenon of continuation funds. What drives their creation? Which assets are transferred (and which are left behind)? What problems do they solve for LPs? Why do some LPs choose to roll into them while others exit? Why are LPs willing to bear the added fees and transaction costs of forming a new fund for the same managers and assets? Why have CFs surged in popularity in recent years? Answering these questions sheds light not only on the design and use of CFs, but also on the frictions that shape capital allocation by large institutional investors.

We develop a simple theoretical model to frame these questions. In this model, a GP has LPs who desire the return of their capital, so the GP proposes one of three alternatives: a fund extension (typically allowed for one to two years under the LP agreement), a continuation fund, or an immediate exit. LPs either agree to the GP's proposal (if it an extension or a CF) or force an exit at the best price they can receive at that point in time, with this decision being complicated by diverging preferences over early or late exits. LPs' heterogeneous preferences are designed to reflect differences in cash flow demands and in internal frictions related to monitoring, risk tolerance, or performance attribution. The GP's preferences reflect incentive misalignment created by compensation structures or personal impatience.

Efficient outcomes are hindered not only by incentive misalignment between the GP and LPs, but also by private information the GP has about the value created by keeping the asset private. Because of this asymmetric information, LPs block CF formation by managers whose compensation gives them a preference for delayed exits. This blocks CFs sought by managers whose only hope of carried interest is gambling for redemption and might seek a CF even if the assets they propose including in the fund have mediocre growth prospects. CFs can only emerge when GPs with high growth prospects roll their carried interest into the CF, because this allows them to separate from peers who would otherwise mimic to earn CF fees. LP heterogeneity drives CF formation by making LP-level liquidity choices more valuable than a fund-level exit-or-continue decision. Finally, deeper and more competitive secondary markets raise CF activity by improving exit prices and increasing the share of LPs choosing to cash out.

We test these predictions using a hand-collected dataset of 472 CFs. Our data are collected from Preqin, Pitchbook, regulatory filings, industry publications, as well as manual searches. We believe it is the largest dataset of continuations established to date.

Using these data, we first consider the characteristics of the legacy funds that form CFs. We find that CFs are typically created near the end of the legacy fund's life, with the average transaction occurring about eight years after the legacy fund's inception. This timing is consistent both with LPs' anticipated cash flow needs and with the ten-year fund lifespan's role in mitigating agency and information frictions (see Metrick and Yasuda, 2010; Diamond, 1989; Gompers and Lerner, 1996). Consistent with the model, legacy funds with a more diverse investor base are significantly more likely to launch CFs, supporting the role of LP heterogeneity in driving these structures.

Better-performing funds with stronger interim performance measures are more likely to launch CFs, consistent with the model predictions of high performing GPs launching CFs. In particular, we find that legacy funds that are in-the-money for GPs carried interest (have an IRR greater than 8%), are significantly more likely to launch CFs. In addition, larger funds are more likely to spawn CF. These patterns contrast with other papers showing that agency frictions are most acute among low-reputation managers (Brown, Gredil, and Kaplan, 2019; Chakraborty and Ewens, 2018; Gompers and Lerner, 1999). In line with our model's signaling mechanism, GPs typically roll much or all of their carry into the CF, with the median GP ownership stake doubling from 3% to 6%.

Buyout funds are much more likely to spin off CFs than venture capital (VC) funds. This could be driven by either a higher degree of asymmetric information in VC or by the challenges of transferring minority portfolio company stakes. Geographically, CFs are heavily concentrated in the United States, reflecting both the depth of the U.S. private equity markets and the more advanced development of the GP-led secondaries ecosystem. This pattern fits the broader historical trend of U.S. leadership in financial innovation, from venture capital partnerships (Sahlman, 1990; Gompers and Lerner, 1999) to leveraged buyouts and private equity structures (Kaplan and Strömberg, 2009). Both appear to be driven both by deep capital markets and a supportive legal environment (La Porta et al., 1998).

Second, we examine which assets are transferred into CFs and which are left behind. CFs most often involve a single portfolio company that has already experienced substantial value growth. The model suggests that these are likely to be assets where deal-level carried interest has been earned or assets where the GP appears to have special value add. The assets included in CFs tend to be larger deals than the average in the legacy fund. Larger deals could have greater economies

of scale, or the CF structure could allow the derisking of carried interest for GPs. Apart from deal size, we do not find strong predictors of which assets are transferred. In particular, we find no evidence that CFs disproportionately include underperforming assets; companies selected for continuation do not differ systematically in performance from those that remain in the legacy fund.

Third, we study LP commitment decisions. The vast majority of legacy LPs choose to exit rather than roll, with only about 6% of LPs rolling their investments into CFs. The fraction of LPs choosing to roll has fallen sharply, from roughly 14–30% in 2018 to under 5% in 2025. An increase in the number of CFs and a decrease in the number of LPs rolling is consistent with the market for secondary investments becoming more competitive: if assets can be sold into CF at higher prices, more CFs will be approved, and more LPs will choose to exit. LPs are also more likely to roll when they are given more time to decide (a longer election period), consistent with slow LP decision-making processes. Not only do the investors change, but the investor types change when an asset is moved from a legacy fund to a CF. Specifically, while legacy funds are dominated by traditional institutions such as pension plans, CFs are generally financed by specialized private equity funds of funds and wealth management firms. Financial intermediaries represent just 14% of legacy LPs but account for two-thirds of new CF investors.

LP rollover decisions exhibit strong persistence: some investors almost never roll, while others do so frequently. This persistence could reflect either institutional policies or LP-specific liquidity shocks. We examine whether rollover behavior is better explained by fixed investor tendencies or by investor-time variation. Our results favor the latter, highlighting the role of time-varying LP liquidity needs or evolving investment policies.

Finally, we provide preliminary evidence on continuation fund performance. Because most CFs are recent and remain largely unrealized, definitive conclusions are premature. On average, CFs report higher internal rates of return but lower investment multiples than comparable traditional funds, consistent with faster cash flow timing rather than superior performance. Overall, CFs do not appear to underperform their peers, though these results should be interpreted with caution given the short histories and reliance on interim valuations.

Taken together, our results portray CFs as an institutional response to liquidity and information frictions in private equity. They arise when some LPs face liquidity pressure while others, including the GP, prefer to maintain exposure to promising but still illiquid assets. The evidence suggests that GPs use CFs to retain stakes in their strongest portfolio companies, often increasing

their own ownership, while offering liquidity to less patient investors. Rather than signaling distress or agency conflicts, CF activity appears concentrated among high-performing managers and funds, consistent with CFs facilitating efficient reallocations of capital between investors with different horizons.

This paper contributes to the literature on private equity fund structures, which spans both theoretical work (Axelson et al., 2009; Kaplan and Strömberg, 2009; Chung et al., 2012; Malenko and Malenko, 2015) and empirical evidence (Kaplan and Strömberg, 2009; Axelson et al., 2013). It is most closely related to studies of private equity secondaries, encompassing LP-led transactions (Nadauld et al., 2019; Boyer et al., 2022) and GP-led secondaries, or CFs.

Within this context, CFs represent a new institutional response to the tension between long-lived private assets and LPs' demand for interim liquidity. Related work on liquidity provision and secondary markets highlights how financial intermediaries create liquidity through price discovery and contract innovation under informational frictions (Stein, 2005; Chernenko, Lerner, and Zeng, 2017; Haddad, Loualiche, and Plosser, 2017; Holmström and Tirole, 1998).

Unsurprisingly given the recent popularity of CFs, several contemporaneous and independent papers study them. Kastiel and Nili (2024) provide a legal perspective on CF contracting, providing explanations based on conflicts of interest for why most LPs do not roll into CFs. Ivashina, Mayer, and Phalippou (2025) analyze confidential investment memos and industry reports, finding that GPs are typically required to roll all carry from the prior fund into the continuation vehicle, that CFs commonly employ tiered carry ratchets, and that their investor bases differ markedly from legacy funds, with a large share of secondary-market specialists. They develop a two-period model focused on GP ability to exploit informational advantages and misprice asset transfers between legacy and new LPs. Their model predicts that raising a CF generally benefits the GP, that higher GP compensation in the legacy fund deters underpricing, that GP coinvestment into the CF mitigates zombie CFs but can foster underpriced CFs, and that CFs are more likely during periods of high LP liquidity demand.

Two recent empirical papers also study CFs. Gottschalg (2024) analyzes 231 CFs from 2018–2022 and finds that their returns are statistically indistinguishable from comparable funds. Luepertz, Roosenboom, and Verbeek (2025) examine 199 CFs from 2014–2022 and show that CFs are disproportionately launched by high-reputation GPs managing well-performing legacy funds; moreover, the transferred assets tend to be among the stronger performers in the legacy portfolios.

Our contribution to this literature is twofold. First, we model an unexplored aspect of the theory on CFs, which is the decision to form a CF as a function of the cross section of legacy fund LP characteristics. Second, we collect a much larger sample of 472 CFs matched to their legacy funds. This dual approach allows us to examine the determinants of GP decisions to initiate CFs and LP decisions to roll into them, offering new insight into how liquidity frictions and incentive misalignments shape the evolution of private equity structures.

2. The Economics of Continuation Funds

2.1. Institutional Background

PE and VC investing is dominated by term-limited, closed-end fund structures. Investors commit capital to these funds at inception, and those commitments are drawn down gradually through capital calls to finance management fees and portfolio investments. The investment period typically lasts four to six years, after which capital calls cease and the focus shifts to monitoring and exiting portfolio companies. Although most funds specify a ten-year contractual life, extensions are routine, and many portfolios remain active well beyond that horizon. For instance, MSCI-Burgiss data indicate that more than one-quarter of 2004-vintage VC funds still held residual assets two decades later, as of June 2024. Individually, LPs would struggle to sell their stakes in these long-lived funds due to a lack of liquidity caused in part because information about portfolio companies is private and unknown to many potential buyers of their stakes.

Continuation funds offer a potential solution. In a CF, the legacy fund GP sponsors a new vehicle that purchases selected assets from the legacy fund. Legacy fund LPs can either sell their assets into that purchase or roll their exposure into the new vehicle. The LPs that choose to exit are paid using funds raised by new investors, generally specialized secondary investors.

There are other ways in which LPs can get liquidity from existing claims, as illustrated by Figure 2. Across these examples, we consider a fund (Example Fund XI) with two portfolio companies (Asset A and Asset B) and two LPs (1 and 2), where LP 1 wants liquidity. Panel A shows the status quo, with later panels contrasting various liquidity options.

[Figure 2 about here]

In Panel B, LP 1 sells their stake to an external buyer in exchange for a cash payment. This type of transaction is known as an LP-led secondary. The GP is typically minimally involved, although

they must usually approve the proposed transaction. Information frictions are a key barrier to these transactions: a claim on a bundle of companies is being sold, and both the buyer and the seller may lack access to important company-level information. This makes the LP-led secondaries market relatively illiquid, with stakes generally changing hands at a significant discount (Nadauld et al., 2019).

In Panel C, the fund sells asset A provides liquidity to all LPs. Historically, such a sale was almost always a trade sale or an initial public offering. However, the trend of companies staying private longer and the cyclicality of the acquisition and IPO markets means that many companies are not IPO candidates and are not sold because of either a lack obvious buyers or a gap between seller and buyer price expectations. Whereas LP 1 is happy to get immediate liquidity, LP 2 may not be. Selling an individual asset may be operationally easier for the GP than an LP selling their fund stake, but it may still be inopportune and reduce overall value. Unlike the LP-led secondary, which is LP-specific, an asset sale is asset-specific: all LPs exit their claim on that company simultaneously.

In Panel D, the GP moves Asset A into a CF. This allows LP 2 to exit and get paid for their portion of Asset A, whereas LP 1 can roll their exposure into the new fund rather than selling at a potentially discounted price. The GP also benefits by earning fees and carried interest on the new fund (Example Fund XI CF). Funding for LP 2's redemption may come from additional company-level leverage, reinvestment by existing LPs, or, most commonly, from new capital raised from specialized secondary investors.

A CF transaction is distinctive in being both *LP-specific* and *asset-specific*: it allows some LPs to exit while others remain, and applies only to selected assets rather than the entire portfolio. Other liquidity mechanisms, including the sales in Panels B and C and other structures like NAV loans, either provide liquidity to all investors or affect all fund assets simultaneously, as summarized in Figure OA1. This is inefficient if some assets are easier to sell and not all LPs need liquidity.

Whether carried interest is crystallized and paid out at the time of a continuation fund (CF) transaction is determined through negotiation among the parties. Paying carry out at that point disadvantages existing LPs. First, it accelerates payments to the GP to before investments are fully realized, allowing compensation before final outcomes are known. Second, paying carry weakens the GP's performance incentives, since the profit-sharing stake is no longer at risk. This dynamic

is especially sensitive because the same GP controls both the selling and the buying vehicles, creating potential for moral hazard. To mitigate these concerns, GPs generally "roll" the carry associated with the transferred assets into the new CF as part of their capital commitment, maintaining alignment with investors (Ivashina, Mayer, and Phalippou, 2025).

The transaction price at which assets are transferred to the CF is also negotiated among the GP, legacy LPs, and incoming investors, and it is a central source of tension. A price below fair value transfers wealth from exiting LPs to new investors, whereas a price above fair value transfers wealth from new investors to exiting LPs. The LPs who roll into the new fund are indirectly affected through the fees and carry structure but not directly through the transaction price itself. Pricing also interacts with incentives: a lower price reduces both any crystallized carry in the legacy fund and the management-fee base in the new fund, whereas a higher price inflates both. Further complicating governance, transaction approval typically rests with the Limited Partner Advisory Committee (LPAC), whose membership may not represent all investors and can be skewed toward either those exiting or those rolling into the CF.

2.2. A Model of LP Exits, Fund Extensions, and Continuation Funds

To formalize the ways that liquidity constrained LPs can exit their investments, we first present a simple two-period model that considers exits and fund extensions. We then extend that model to CFs.

2.2.1. Exit Value and Timing

A GP manages a legacy fund that has an asset X. This asset has value X_0 if it is sold to a buyer today and some value X_1 if it is kept by the GP until time 1 and then sold. The time 1 value depends on the asset's growth potential, which is observable only to the GP. With probability p, the asset has growth potential and future value X_1^H, whereas with probability $1-p$ it does not have growth potential and has future value X_1^L for $X_1^H > X_1^L$. Write $\bar{X}_1 = pX_1^H + (1-p)X_1^L$ as the unconditional expected exit.

Whether this asset is sold or kept depends on the outcome of a two-step game. In the first step, the LPs choose whether to grant a fund extension to the GP based on what maximizes the LPs' aggregate utility. If an extension is not granted, the asset is sold for X_0 and the game ends. If an extension is granted, the GP chooses whether to sell the asset for X_0 or keep it private for a time-1 exit of X_1.

The exit payoff X_t is split between the GP and the LP, with the GP receiving $\lambda_{LF}X_t$ and the LP receiving $(1-\lambda_{LF})X_t$. This payoff structure would emerge if GPs have done so poorly the have no hope of receiving carried interest ($\lambda_{LF} \approx 0$) or if they have returned LP contributions and are earning carry on all distributions at rate λ_{LF} base, on a return-of-contributions carried interest model.

2.2.2. Preferences for Early or Late Exits

We use heterogeneous discount factors δ_{LP}^{i} for $i \in [0,1]$ and δ_{GP} to determine the LPs' and GP's preference for early or late exits as a proxy for governance frictions and compensation distortions. We assume that LPs have a continuum of discount factors between $\delta_{LP}^{i} \sim U(\delta_{LP}^{LB}, \delta_{LP}^{UB})$. A low discount factor could represent an LP with pressing liquidity needs such as those studied by Li (2025), but it could also represent LPs facing other frictions. For example, LPs commonly face bounds on their allocation to PE and thus may have to turn down profitable opportunities due to a backlog of unexited investments. Alternatively, some LPs could face governance constraints that make it challenging to hold investments outside their original mandate. Finally, these discount factors could serve as a proxy for heterogenous LP views on the GP's quality.

Taken literally, the GP's discount factor represents the impatience of a GP who has real consumption needs and earns linear fees on the exit, for example, due to having returned LP contributions and receiving carried interest. More generally, we view this discount factor as governing timing preference misalignment between the GP and LPs. A GP with a low discount factor and a bias toward early exits could represent a GP with a desire to demonstrate good returns to LPs (e.g., Gompers's (1996) grandstanding). Alternatively, GP could have a high discount factor, even possibly a discount factor greater than 1, not because they are patient, but because they want to defer marking down overvalued assets (Chakraborty and Ewens, 2018), to keep assets in the fund to earn managed capital, or to increase variance to gamble for resurrection (Jensen and Meckling, 1976).

THEOREM 2.2.1: Suppose that the median LP $\bar{\delta} = \frac{1}{2}(\delta_{LP}^{LB} + \delta_{LP}^{UB})$ prefers that the asset is kept private if there is growth potential ($X_0 < \bar{\delta}_{LP}\, X_1^H$) and all LPs prefer it not be kept private unconditionally ($\delta\, \bar{X}_1 < X_0 \;\; \forall \delta \in [\delta_{LP}^{LP}, \delta_{LP}^{UB}]$). Then the sequential equilibria are as follows, with uniqueness holding except on indifference boundaries:

1. **EFFICIENT FUND EXTENSION:** If the $\delta_{GP} \in [X_0/X_1^H, X_0/X_1^L]$, the GP's preferences are aligned with the LPs and the unique equilibrium has the GP being authorized for a fund extension and exiting only when the LPs would prefer an exit.
2. **NEVER CONTINUE:** If the $\delta_{GP} \notin [X_0/X_1^H, X_0/X_1^L]$, the GP's preferences are misaligned, and the asset will be sold at time 0 regardless of its growth potential.

We relegate proofs to the appendix, noting that they generally follow directly from the GP and LP incentive compatibility constraints.

The never continue equilibrium can emerge even when it is inefficient because of incentive misalignment between the GP and LPs. Specifically, if the GP has too strong a preference for early exits, she will force an exit regardless of quality. If the GP has too strong a preference for late exits, she will seek a fund extension and keep the asset private regardless of the growth options, and so the LPs will not offer her a fund extension and will instead force an exit.

2.2.3. Continuation Funds

Assume that prior to the game above, the GP can propose a CF where they commit to either roll their fees from the prior fund ($\rho = 1$) or not ($\rho = 0$). We assume that the GP (or the individual partners who make up the GP) are liquidity constrained and so cannot fund this investment other than from the prior fund's fees. If LPs approve the CF, the GP solicits bids from competitive secondary funds to set a price P at which the asset is transferred into the CF. Like the LPs, these secondary funds are impatient (δ_{SI}) and suffer from asymmetric information so that they cannot observe the asset's growth potential.

LPs face choices of whether to approve the CF and whether to roll their stake into the CF if it is approved. If LPs do not roll, they are paid out $(1 - \lambda_{LF})P$. If they roll, their payoff is based on the eventual exit of the CF, which has a new layer of fees $\lambda > 0$ and leads to the following cash flows to GPs and LPs:

$$\Pi_{\mathrm{GP}}(X_1) = \lambda_{CF} X_1 \quad \text{and} \quad \Pi_{\mathrm{LP}}(X_1) = (1 - \lambda_{CF}) X_1.$$

Note that the GP is not only the GP of the CF and legacy fund, he is also an LP in the CF from the reinvestment of his legacy fund carried interest.[4] The GP's carried interest entitles it to $\frac{\rho\lambda}{P}$ portion of the CF.

[4] Most secondary investors will not invest in a continuation fund unless the GP rolls his carry. The data discussed below document that, most likely for this reason, GPs' percentage stakes in continuation funds are higher than in legacy funds.

Putting those together, the payoffs of the GP, exiting LPs (ELP), rolling LPs (RLP), and secondary investor (SI) are as follows:

$$v_0^{GP} = \lambda_{LF}\, P(1-\rho) \text{ and } v_1^{GP} = (\lambda_{LF}\, \rho + (1-\lambda_{LF}\, \rho)\, \gamma)\, X_1,$$
$$v_0^{ELP} = (1-\lambda_{LF})P,$$
$$v_1^{RLP} = (1-\lambda_{LF})(1-\lambda_{CF})X_1, \text{and}$$
$$v_0^{SI} = -yP \text{ and } v_1^{SI} = y\,(1-\lambda_{CF})\,X_1,$$

where y is portion of the CF that the secondary investor must buy to offset exits by LPs and the GP.

2.2.4. Continuation Fund Equilibria

THEOREM 2.2.2: Suppose that both the median LP ($\bar{\delta}_{LP}$) and the secondary investor (δ_{SI}) prefers that the asset is kept private if there is growth potential ($X_0 < \delta X_1^H \ \forall \delta \in \{\delta_{SI}, \bar{\delta}_{LP}\}$), and all LPs and the secondary investor prefer is not kept private unconditionally ($\delta\, \bar{X}_1 < X_0 \ \ \forall \delta \in [\delta_{LP}^{LP}, \delta_{LP}^{UB}] \cup \{\delta_{SI}\}$). Then the following are the only pure strategy sequential equilibria:

1. **EFFICIENT FUND EXTENSION:** An equilibrium where the GP authorized for a fund extension and continues or exits in the manner the median LPs prefers exists if $\sigma_{GP} \in [X_0/X_1^H, X_0/X_1^L]$
2. **NEVER CONTINUE:** An equilibrium where the asset is sold early exists if $\sigma_{GP} \notin [X_0/X_1^H, X_0/X_1^L]$.
3. **EFFICIENT CONTINUATION FUND:** An equilibrium where the GPs whose asset have growth opportunities launch a CF, and other GPs sell immediately exists if the following hold:

   i) All fees are rolled into the CF ($\rho = 1$)

   ii) LPs benefit:

$$\underbrace{\lambda_{CF} \int \max\{\delta_{SI}, \delta_{LP}^i\}\, di}_{\text{Fees}} \leq \underbrace{\int \max\{\delta_{SI} - \delta_{LP}^i, 0\}\, di}_{\text{Value of individual exits}} + \underbrace{\mathbf{I}[\delta_{GP} X_1^H < X_0]\left(\bar{\delta}_{LP} - X_0/X_1^H\right)}_{\substack{\text{Benefit of avoiding} \\ \text{early, GP-driven exit}}},$$

   iii) GP preferences are sufficiently aligned, with

   $\delta_{GP} \in \left[c\,\frac{X_0}{X_1^H}, c\,\frac{X_0}{X_1^L}\right]$ for $c = \frac{\lambda_{LF}}{\lambda_{LF} + \lambda_{CF}\,(1-\lambda_{LF})}$.

The LP benefit term has a straightforward intuition. A CF can only occur if the fees (left hand side) are less than value created by allowing individual LPs to exit at the price set by the secondary investor (right hand side). The option to sell to the secondary investor depends on each group's

patience parameters. The first term's value reflects the value of individual exits, which is driven by both the dispersion in LP preferences and the relative patience of the secondary investor. If the secondary investors are more patient, the ability to sell to them via a CF has more value. If the dispersion in LP preferences is high, the differential exits a CF offers have more value. The second term is an added benefit the LPs realize if the GP was misaligned – for very impatient GPs, the added fees from the CF can align incentives toward an exit.

The GP preference alignment term is more subtle. It is equal to the GP preference alignment conditions that we needed for the efficient fund extension but shifted downward toward relatively less patient GPs. The intuition here is that CF's increase overall fee load, so there are GPs with bad growth potential who had consistent incentives when faced with a choice of a fund extension or an immediate exit, but for whom extra fees would tilt them into inefficiently continuing.

The extent of this shift can be so severe a CF is impossible. In particular, if the fees earned on the previous fund were too low relative to the CF fees ($\lambda_{LF} \leq \frac{1}{1+1/\lambda_{CF}}$), the amount rolled is too low to create incentives.

[Figure 3 about here]

2.2.5. Parameter Space

Figure 3 lays out the potential equilibria for a representative parameter set, as a function of the GP and LP patience. Areas are labeled *i* to *vi*, we discuss each in turn. In area *i*, a fund extension equilibrium is possible, but CFs are not because of a lemons problem: the extra fees CF offer tempt GPs without projects to launch CF. We interpret these GPs with a preference for later exits as GPs who may struggle to raise another fund and who are out of the money on carried interest in the event of an immediate exit, causing them to gamble for redemption. This provides another reason (beyond an inability to roll fees) why poorly performing GPs may struggle to raise a CF.

In areas *ii* through *iv*, LPs are impatient enough that the deferred payoffs of a CF are only attractive if they have assets with growth prospects. Whether a CF equilibrium exists depends on whether the LP-optionality a CF creates outweighs its cost. In area *ii*, the benefits of LP-optionality mean that even the impatient LPs prefer a CF, whereas in area *iv*, average LP patience is high, so LPs prefer the fee savings of a fund extension. CFs are possible for a wider range of average LP patience parameters when LP patience is more dispersed, the secondary investor is more patient, and the CF fees are lower.

Finally, in areas *v* and *vi*, GP and LP preferences are misaligned in the fund extension case and GPs will sell assets that LPs would prefer be kept. While we interpret high discount factor GPs as poor performers, we interpret these GPs as strong performers: these GPs may have carry they are impatient to receive or that would be impeded by a hurdle rate. Here, CFs allow for efficient continuation when GPs would otherwise exit. CF effectively "bribe" these impatient GP to keep the asset private.

2.3. Empirical Predictions

The model yields several empirical predictions, which we organize along three dimensions: (i) the conditions under which continuation funds (CFs) emerge, (ii) the rollover decisions of limited partners (LPs), and (iii) the characteristics of the assets transferred into CFs.

2.3.1. Emergence of CFs.

The first and most direct prediction is that CFs should not be initiated by general partners (GPs) managing poorly performing legacy funds. In the model, GPs can only form a CF if they are able to roll their carried interest from the legacy fund into the new vehicle ($\rho > 0$). Managers without earned carry ($\rho = 0$) lack the signaling mechanism that distinguishes GPs with good opportunities from those simply seeking to earn more fees. Likewise, GPs with a strong preference for delayed exits (high δ_{GP}), for instance, cannot credibly propose CFs because they are "gambling for resurrection". Consequently, CFs should be observed only among well-performing legacy funds. For very strong performers, CFs may also serve a useful contracting role: by crystallizing carry and resetting incentive structures, CFs can reduce GPs' temptation to exit prematurely simply to lock in gains.

A second prediction is that CF formation is more likely when LP preferences are more heterogeneous ($\delta_{LP}^{UB} - \delta_{LP}^{LB}$ large). A CF allows LP-specific exits, which is valuable only if LPs have differing preferences. If all LPs have the same preferences, LP-specific exits add no value, whereas if LPs have different preferences the ability to tailor liquidity individually is valuable. Thus, we expect CFs to emerge in funds where either some LPs experience liquidity shocks or where the investor base is large and diverse across institution types (e.g., pensions, funds of funds, endowments).

A third prediction concerns the secondary market environment. CFs are more likely to appear when secondary investors are willing to pay higher prices (high δ_{SI}). Because secondary buyers are themselves funded by LP capital, the aggregate supply of capital in the secondary market directly affects GPs' ability to structure CF transactions. Hence, we expect CF incidence to rise when the secondary market is deep and well-capitalized.

2.3.2. LP Rollover Decisions.

When a CF is created, LPs must decide whether to roll their interests into the new vehicle or to exit. In the model, more patient LPs (high δ_{LP}^{i}) choose to roll, while impatient LPs (low δ_{LP}^{i}) exit. Empirically, LPs experiencing liquidity shocks or facing institutional frictions (e.g., slow approval processes or re-allocation pressures) are more likely to exit. In addition, higher transaction prices increase the attractiveness of cashing out, leading to more exits and fewer rollovers.

2.3.3. The Quality of Transferred Assets.

The model predicts that higher-quality assets are more likely to be transferred into CFs. Two mechanisms drive this result. First, in funds with deal-by-deal (American-style) carry, only well-performing assets generate carried interest. GPs therefore have an incentive to transfer these assets into CFs to crystallize their earned carried interest. Poorly performing deals, which do not pay carry, offer little motivation for CF formation from GPs' perspective.

Second, CF are used for assets which have further growth if held privately (high X_1^H/X_0). There is strong evidence of pre-fee persistence in private equity, suggesting that managers who have added value to a company in the past will continue to add value in the future. Thus, we expect CF portfolios to comprise relatively successful and high-growth assets from the legacy fund.

3. Stylized Facts about Continuation Funds

3.1. Sample Construction

We build our database of CFs using data from Preqin, Pitchbook, form ADV filings, and media announcements. We begin by identifying funds in Preqin, Pitchbook, or Form ADV filings whose names that contain "CF," "CV", "Continuation fund", or "Continuation vehicle" and confirming

that each entry is indeed a CF. We supplement this list with data gathered from announcements of new CF creations from *SecondaryLink*, *Secondaries Investor* (part of the PEI media group) and other sources. Some funds are labeled as opportunity funds, extension funds, special purpose vehicles, while other funds do not have any dedicated labels.

Our initial dataset contains 472 CFs raised between 2005 and 2025. For each fund, we use Preqin and Pitchbook for information on fund characteristics, limited partner identities, and assets held. We identify the corresponding legacy funds by tracing each CF's underlying assets back to earlier vehicles managed by the same GP. Since the creation of a CF also affects the economics of a LF, we exclude cases where one LF spawned multiple CFs. After these filters, we have a dataset of 185 CFs for which (i) both Preqin and PitchBook data are available, (ii) LP identities are known, and (iii) each CF is matched to a unique legacy fund.

LPs can be involved with a CF in three distinct ways: as an investor in the legacy fund who exits using the CF proceeds, as an investor who rolls their stake into the CF, or as a new investor onboarding with the CF. Because of the disclosure requirements they face under state-level FOIAs, U.S.-based pension plans are the largest category of investors in our sample. We aggregate multiple retirement plans managed within a single retirement system.

3.2. Descriptive Statistics

Table 1 describes the variables and their sources that we use in our main analysis. Most variables are defined for both legacy and CFs, while some represent the difference between the two, such as the difference in inception years.

[Table 1 about here]

Table 2 reports different sets of summary statistics: Panel A compares CFs with matched LFs, while Panels B, C, and D provide overviews of the data at the fund-, asset-, and LP-level. Each panel reports the mean, 10th percentile, median (50th percentile), 90th percentile, standard deviation, and number of observations.

[Table 2 about here]

Panel A documents that CFs tend to be smaller than legacy funds: CFs have a mean fund size of $0.8 billion and a median of $0.5 billion, while legacy funds have an average fund size of approximately $2.3 billion. However, since most CFs contain only one asset while legacy funds can have many, the assets chosen to be in the CF tend to be among the larger (and potentially more

successful) ones in the legacy fund. The variable *DiffInceptionYears*, which captures the time gap between the inception of the legacy fund and the continuation vehicle, averages 8.6 years, suggesting CFs are often formed close to the end of original fund's life. The election period for LPs (*Electionpd_CF*) is relatively short, with a mean of only 3 months (0.29*365 days), reflecting a relatively brief period in which investors have to decide whether to roll into the CF.

GP ownership (captured by *ADV_SponsorOwnership,* which reflects the percentage ownership stake held by the GP as reported in ADV filings) is higher on average for CFs (mean = 9.48%) than for their associated legacy funds (mean = 7.18%). The median ownership in CFs is almost double that of LFs (5.8% vs. 3%), and the upper tail (90th percentile) is substantially higher in CFs (24% vs. 11%). This observation likely stems from the fact that GPs would typically roll their carry into a newly created vehicle and crystallize (de-risk) the portion of their profits linked to this particular deal.

Performance metrics show that CFs have higher IRRs relative to legacy funds. The mean net IRR is 21%, with a median of 17%, but there is wide dispersion, as returns range from 1.4% to over 50% at the 10^{th} and 90^{th} percentiles respectively. At the same time, net multiples are lower for CFs relative to the legacy funds. Since IRR is a time-weighted measure of return, the shorter duration of cash flows could mechanically yield higher IRRs even if the multiple of invested capital (TVPI) is lower. However, one important caveat in these comparisons is that the creation of CFs affects the performance of LFs, and most of the CFs remain unexited due to the recency of this trend.

Panel B indicates that the probability of raising a CF in a given year, conditional on being at least 3 years old and not having raised one, is 0.002. Most LFs are in carry, meaning that these funds have an IRR over 8% before the time of the CF launch.[5] Panel C gives overview of basic characteristics of portfolio companies held by LFs. Panel D present statistics on the LPs in our sample. Perhaps the most striking of these is that only 5.7% of legacy investors choose to roll their stake into CF. New investors comprise 73% of CFs' LP base.

The overall pattern is consistent with CFs often being carved out from large funds that have had good performance. The assets tend to be above average quality and are likely to require more time or be relatively difficult to monetize through traditional exits in current market conditions. In total, the summary statistics highlight key differences in scale, timing, and economic outcomes

[5] Most private equity funds require an IRR of at least 8 percent before their GPs can earn carry.

between continuation vehicles and their legacy funds.

[Figure 4 about here]

Panel A of Figure 4 illustrates the evolution of the CF market from 2005 to 2025, showing both the aggregate value of CF transactions in USD billions (bar chart, left axis) and the number of CFs launched each year (dashed line with markers, right axis). The data highlights a sharp expansion in CF activity over the period. From 2018 to 2021, the CF market experienced steady growth. The total value of CF transactions increased from about $5 billion in 2018 to nearly $50 billion in 2021. A similar upward trend is observed in the number of CFs, which rose substantially during this time. The peak in our sample is 2024: over $80 billion in transaction value and approximately 150 CFs launched. However, the data for the first half of 2025 shows that 2025 is on pace to be equally large as 2024.

Panel B points out that the fraction of rolling investors has decreased as CFs have become more popular. In particular, the fraction of rolling LPs declined steadily from around 14-15% in 2018–2019 to below 5% by 2025, indicating that fewer incumbent LPs choose to roll their commitments into continuation vehicles over time. The share of public LPs rolling fell even more sharply, from roughly 30% in 2018 to about 2% by 2024, suggesting a strong retreat of public pension investors from rolling into GP-led deals. The temporary uptick around 2021 likely reflects the surge of CF activity following pandemic-related liquidity constraints, when some LPs opted to roll rather than sell. After 2021, both series flatten at low levels, implying that CFs increasingly attract new investors or secondary buyers rather than retaining legacy LPs.

[Figure 5 about here]

Figure 5 presents the distribution of CFs across fund types. Buyout firms dominate the use of continuation vehicles**,** followed by venture capital firms and infrastructure funds. In addition, private equity firms also appear to be overrepresented relative to the universe of GP firm types in Pitchbook. This distribution suggests that CFs are most commonly used in strategies with larger, more mature assets.

Figure OA2 additionally shows the industry composition of the assets transferred into continuation vehicles. Most transferred assets are concentrated in B2B, B2C, IT and healthcare industries. This distribution is broadly consistent with the underlying portfolio composition of buyout funds, suggesting that GPs are not disproportionately selecting CF candidates from niche or outlier sectors. In other words, the transferred assets mirror the fund's existing exposure profile

rather than representing opportunistic cherry-picking across unrelated industries.

4. Which Funds Launch Continuation Funds?

The first set of predictions we examine empirically concern the formation of CFs. To evaluate the factors leading to the formation of a CF, we present estimates of a Cox hazard model in Table 3. The dependent variable across all five columns is a binary indicator for CF formation. All equations include fund size, fund type, and vintage year FEs, as well as additional variables that vary across specifications.

[Table 3 about here]

The estimates indicate that CFs tend to be raised by larger legacy funds. This observation is consistent with the reputation channel: if asset transfers into CFs exhibit high moral hazard and high asymmetric information, it is possible that only high reputation agents (that is, larger funds) are entrusted with it (Diamond, 1989). In terms of the fund type, buyout and growth funds appear to be more likely to create CFs than VC funds. This finding could be driven by higher information asymmetry in earlier stage companies. It might also occur because of control reasons. CFs are essentially a commitment to manage the portfolio company for a longer period of time. In a buyout, the fund usually has control of the company so can make this decision while in a VC deal, the fund only has a minority position. Presumably the other investors who own the portfolio company would have to agree to the longer horizon and many times they probably are not willing to do so.

In Columns (1) to (5), the equations include performance-related variables: net IRR, distributions to paid-in capital (DPI), residual value to paid-in capital (RVPI), and the indicator for LF being in carry (meaning that it has an IRR greater than 8%). In line with the notion of providing much needed liquidity to LPs, CFs are initiated when legacy funds have high unrealized value. Based on the estimates in Column (1), the odds of raising a CF in a given year are increasing with fund size, and RVPI. For example, the odds of raising a CF are about three times higher for an RVPI of 1 versus an RVPI of 0. Column (2) shows that the probability of raising a CF is somewhat lower when the investor-type Herfindahl is high: when the Herfindahl goes from 0 (perfectly dispersed) to 1 (one type of investor), the odds of raising a CF increase by 43%. Column (3) points to a marginally statistically significant but nonetheless substantial relationship between the ratio of DPI to TVPI and the likelihood of raising CF: if DPI/Total multiple is high (a large portion of the current total fund value has been distributed), GPs are much less likely to create a CF.

In Column (4) we break down IRRs into 5-point bins to closer explore the importance of prior LF performance on the probability of raising a CF. Funds with higher IRRs are consistently more likely to launch a CF. Relatedly, in column (5) we find that the variable *InCarry* has a positive and statistically significant impact on the probability of raising a CF, which is consistent with the empirical predictions from the model.

Overall, the impacts of fund size, type, and RVPI on the formation of a CF provides insight into the strategic determinants of CF formation across funds. Importantly, the performance-related findings are in line with the model's prediction: GPs have incentives to launch CF when they are in carry and hence can crystallize and de-risk their share of profits related to the proposed transaction.

5. Which Portfolio Companies are Transferred to a Continuation Fund?

We next evaluate the characteristics of the companies that are transferred to a CF. Table 4 presents estimates of equations predicting whether a particular portfolio company is included in a CF. The dependent variable across all six specifications is an indicator equal to one if the asset is ultimately included in a continuation vehicle. The equations use deal-level characteristics to explain the likelihood of transfer, incorporating variables such as deal size, revenue, profitability, valuation multiples, and deal type. All models include fund fixed effects to account for unobserved heterogeneity at the fund level.

[Table 4 about here]

The variable *DealSize_SumDealSizes*, which captures the original deal size relative to the legacy fund's total size, is positively associated with the likelihood of transfer into a CF. The positive relation potentially suggests that originally larger deals, relative to the overall deal-making, are more likely to be selected for continuation. This pattern supports the view that GPs tend to transfer their most sizable holdings into CFs, which helps GPs de-risk larger amount of carry by crystallizing it as a GP ownership stake.

At the same time, financial metrics such as revenue, profitability, and implied enterprise value (measured right before the transaction) do not appear to explain which assets will be transferred. This finding could indicate that GPs prioritize asset size over current profitability or valuation when selecting companies for CF transfer. Similarly, deal type indicators, included in columns (5)–(6), do not reveal any particular patterns in terms of deal types – in this dimension transferred

assets are similar to other assets in the same fund.

Together, these results indicate that GPs are more likely to transfer larger companies into CFs. This observation is consistent with the idea that GPs have incentives to select larger companies for CFs: larger deals allow GPs to de-risk larger part of their carry by transforming the carried interest into GP ownership.

6. Investor-level Evidence: Rollover Decisions and LP Composition

We now evaluate an LP's decision to roll into the CF. At first glance, it might seem to be an obvious call for an LP to roll. After all, these are the portfolio companies that the GP has chosen to devote more time, effort and dollars to; presumably these are companies that the GP really likes. In addition, the GP increases his stake in these companies, so he will be strongly motivated to increase their value. In the lingo of economics, both adverse selection and moral hazard considerations suggest that CFs should be good investments. Yet, perhaps surprisingly, few LPs actually roll their investments into the CFs; the vast majority of LPs choose to exit.

6.1. The Decision to Roll into a Continuation Fund

To study the rollover decisions of LPs, we estimate equations predicting whether a particular LP rolls his investment into a CF. The dependent variable across all specifications is a binary indicator for whether the investor (LP) chooses to roll its interest into the continuation vehicle rather than cashing out. The data do not allow us to distinguish between full and partial rollovers since the commitment size is missing most of the time. Similarly, the data does not allow us to identify those LPs who decided to commit capital in addition to the stake they currently hold.

We report estimates of these equations in Table 5. Panel A contains estimates from the sample of all known LPs that were part of the existing legacy funds. We include LP type FEs, which help control for heterogeneity among investors. One source of such heterogeneity could be differences in reporting. In Panel B, we specifically focus on the rollover decisions made by U.S. public plans. We report estimates for US public plans separately because the data for these LPs is generally superior to those for other LPs. While most public plans in the United States are required to disclose their commitments to private equity funds under FOIA regulations, no such requirement exists for other categories of LPs.

[Table 5 about here]

Each column reports results from a linear probability model using various controls, including investor and sponsor characteristics. The sample consists of LP-fund pairs, and the regressions include various combinations of fund-, sponsor-, and LP-level controls. Vintage year fixed effects are included throughout to account for time trends in rollover behavior. In addition, Fund FEs control for time-invariant heterogeneity across funds.

For each LP roll decision, the variable *ContempRollDecisions* is the average of that LPs' other CF roll decisions in that year and the adjacent years, whereas *NonContempRollDecisions* is the average across decisions more than a year away. Across specifications, *ContempRollDecisions* is positive and highly significant: LPs tend to roll into other CFs if they are rolling into one. This coefficient is larger than the coefficient on *NonContempRollDecisions*, suggesting that these effects are driven not only by LP-level policy but also by time varying shocks.

We can do a more formal test of the importance of persistent entity characteristics versus temporal shocks to each entity by looking at the sample of entities that made multiple roll decisions in a single year. In that sample, CF fixed effects alone explain little of the variation in roll decisions with an adjusted R^2 of just 2%. Adding LP fixed effects raises the adjusted R^2 to about 14%, implying that persistent cross-LP differences account for an additional 12% of the variance. Allowing for LP–year fixed effects further increases adjusted R^2 to about 26%, indicating that transitory, time-varying factors at the LP level explain another 12% of the total variance. This suggests that both persistent LP heterogeneity and time-varying LP-specific shocks appear to be economically and statistically important drivers of performance variation.

The variable *SingleAsset*, indicating whether the CF holds only one asset, is negatively associated with LP rollover across multiple specifications. The coefficient is statistically significant in several models across both panels. This finding suggests that LPs are somewhat less likely to roll their commitments into single-asset CFs, potentially due to concerns about concentration risk or perceived lack of diversification. The aversion could also reflect challenges in assessing fair value for a single asset. LPs often claim that the reason why they do not roll into CFs is that they are not equipped to diligence acquisitions of individual companies, making rolling into CFs with only one asset particularly problematic.[6]

While the size of the CF does not appear to drive the rollover decisions, *DeltaVintage* (the age

[6] Source: Personal conversations between the authors and LPs.

difference between the CF and original fund) has a consistently negative and statistically significant coefficient in our larger samples, suggesting that LPs are less likely to roll when CFs are formed a long period following the original fund. Notably, *Electionpd_CF*, a measure of the election or decision period for rollovers, is positively and statistically significantly related to participation, implying that longer decision windows may facilitate greater LP participation in the CF. This factor appears to be particularly important for public pension funds – recently several public pensions funds (including MassPRIM and Alameda County Employees' Retirement Association)[7] streamlined their investment approval processes to specifically allow faster responses to the proposals to participate in CFs.

Overall, investors' decision to roll is strongly correlated with time-varying investor-level characteristics capturing LPs' contemporaneous inclination to consider CF proposals favorably. This evidence indicates that LP rollover behavior is systematic and shaped by institutional frictions in addition to transaction-specific factors.

6.2. Aggregate LP composition

We next turn our attention to the aggregate LP composition across CFs and legacy funds. Figure 6 provides a comparative snapshot of three groups of limited partners: i) LPs investing in legacy funds**,** ii) LPs who choose to roll their stakes into the continuation vehicle, and iii) new LPs investing into the CF. The provided fractions are aggregated across all funds of a given category and are count-based measures. Figure 6 reveals a significant transformation in the investor base as these transactions unfold.

[Figure 6 about here]

Public pension funds dominate the legacy fund stage, representing roughly one-third of investors (32%), followed by insurance companies (19%) and private pensions (18%). Financial intermediaries -- primarily secondary funds and funds-of-funds -- account for 14%, while foundations, endowments, and other smaller categories make up the rest.

Among rolling investors, the mix shifts moderately. Public pension funds remain significant, likely due to their reporting requirements: even if all legacy LPs would roll in the same fraction,

[7] See "MassPRIM primed for continuation funds," *Buyouts Insider*, 2023 and "Alameda County pension to adjust PE strategy, speed up continuation fund approval process," *Buyouts Insider*, 2024.

we capture public LPs' roll decisions with higher frequency. Financial intermediaries rise to nearly one-fifth of participants, reflecting their comfort with secondary and structured liquidity transactions.

The transformation becomes striking when examining new CF investors. Here, financial intermediaries comprise two-thirds (66%) of all participants -- by far the largest category. At the same time, traditional institutional investors' shares collapse: public pensions fall to 10%, insurance companies to 6%, and private pensions to just 1%. The "other" category, which includes family offices, private wealth platforms, and opportunistic buyers, expands to 13%. This pattern underscores the institutionalization and specialization of capital entering CFs, as these vehicles increasingly attract secondary funds and intermediated capital rather than the long-horizon investors typical of legacy PE funds.

Overall, this figure illustrates a structural evolution in the investor base through the life cycle of a CF transaction. The declining presence of traditional institutional investors and the rise of private equity and wealth management firms in CFs, especially among new investors, highlights how GP-led secondaries are drawing capital from a distinct LP universe.

We combine rolling and new CF investors and compare the CF investor base with that of legacy funds in Table OA1. This comparison illustrates that the combined LP base of CFs -- both new and rolling investors -- differs systematically from that of traditional PE funds**.** CFs are smaller vehicles that attract less capital from traditional institutional investors such as public pensions and endowments, and more from specialized private equity intermediaries possessing flexibility and secondary-market expertise. GP-led CFs are supported primarily by a distinct, professionalized LP segment**,** rather than the same investors that backed the original legacy fund.

The decision of public LPs to refrain from participating in CFs gives rise to potential fairness concerns. Public LPs' disclosure requirements mean they can be isolated from fund-level information necessary to evaluate these ventures. Moreover, they may be excluded from the fund-level governance functions such as an LP advisory committee. If this is the case, these exiting LPs could face worse outcomes relative to the situation when they roll their stakes.

7. Preliminary Evidence on Performance of Continuation Funds

Perhaps the most useful fact about CFs to know would be their performance. Do they outperform or underperform other private equity funds? As mentioned earlier, there are reasons to

suspect they will do particularly well: their assets are the portfolio firms the GPs have chosen to invest their time and money into, and once they formed, the GPs have strong pecuniary incentives to earn high returns through their high ownership and carried interest on the CF. However, the recency of this trend makes any empirical evaluation of their performance necessarily preliminary. We nonetheless report their performance to date and attempt to compare it to that of the corresponding legacy funds as well as the universe of other funds.

Panel A of Table 6 directly compares the net internal rate of return (IRR) and net multiple of invested capital (Net Multiple) for each CF and its corresponding legacy fund. On average, CFs report a higher IRR (23.9% vs. 19.3%), though this difference is statistically insignificant (t-stat = 0.9). However, CFs exhibit a lower Net Multiple (1.59 vs. 2.00), a difference that is both economically and statistically significant (t = –3.18). This pattern reflects the mechanical nature of IRR in shorter-duration vehicles: CFs typically have faster cash flow timing and may appear to deliver higher time-weighted returns, even when the overall investment multiple is lower.

[Table 6 about here]

We also compare the performance of CFs to that of all other funds. Panel B reports regressions of fund performance on a CF indicator, controlling for fund type and vintage year. Across both specifications, the CF dummy is insignificant, suggesting that CFs perform similarly to other funds on average.

Taken together, the results indicate that CFs do not underperform traditional funds, but these findings should be interpreted with caution. The CF trend is relatively recent, and many of these vehicles have not yet exited their underlying investments. As a result, reported returns are preliminary and based on unrealized valuations, which may not reflect final outcomes. Furthermore, differences in performance are likely to be driven by how and when NAVs are marked, rather than actual distributions.

8. Discussion and Conclusion

Private equity funds earn returns by investing in portfolio companies, exerting their control rights, and increasing the value of these companies. Investors provide capital for these funds because they believe the risk-adjusted returns they will receive justify the risk and illiquidity associated with them. The funds are illiquid because they can only return capital to their investors when they sell their portfolio firms. Since funds' abilities to sell portfolio firms as well as the prices

they receive if there is a sale are dependent on market-wide factors beyond the funds' control, there will be situations where funds hold portfolio firms longer than their investors would like.

CFs are an institution that has arisen as a solution to a mismatch in horizons between GPs, who want to maximize the present value of the returns to their investments, and LPs, who usually desire regular outflows from their investments to finance operations and plan future investments. LPs are given the option to "roll" their investments into the CFs, but most choose not to. Those LPs are paid out using new money invested by outside investors, typically specialized secondaries funds. Effectively, the exiting LPs are selling their stakes to the secondaries fund at a price negotiated by the GP.

We construct a database of the universe of CFs in the US. We find that while GPs increase their personal exposure in CFs, possibly to signal confidence or mitigate adverse selection concerns, LPs roll only 5.7% of the time. Their decision to roll appears to be based on liquidity needs and governance constraints. Public pensions and corporate pensions are significantly less likely to participate, while private equity fund-of-funds and wealth managers are more likely to invest, both as rolling and new investors. The shift in the investor base highlights a broader evolution in private markets, as more specialized, flexible capital providers assume a greater role in GP-led secondaries.

Our evidence on performance is still preliminary, since the majority of CFs have not yet exited. We find suggestive signs that CFs perform similarly to peer funds in terms of investment multiples and IRR, as the results are mixed and not statistically significant. To complement these early findings, we analyze the ex-ante characteristics of transferred assets and show that CFs tend to include larger deals (scaled by fund size), often from buyout strategies and more mature stages of company development. These patterns are consistent with GPs using CFs to de-risk larger part of the carried interest by transforming it into GP ownership.

These facts are consistent with a worldview in which CFs arise from frictions in the private capital market. In a Coasian, frictionless world, CFs would not be necessary. In such a world, if extending the life of a deal were a positive NPV investment, then the LPs would always want to take this investment. They would do so by borrowing at a fair interest rate to finance their operations until the fund returned its capital, which would more than offset the cost of borrowing. The fact that they do not roll because of liquidity constraints suggest that the forces causing these constraints are the underlying cause of CFs.

There are several frictions that are likely to be important factors leading to the formation of CFs. Asymmetric information about portfolio firm strategies, their potential to improve their cash flows, and other factors relevant to portfolio firm valuations can create a lemons problem and inhibit exits. In addition, the LPs who provide capital for the investments have their own cash demands, and these demands limit their flexibility to take some investments (like CFs), even if those investments are positive NPV. Limitations on LPs' abilities to diligence investments in portfolio firms (rather than funds) is a potential reason for their reluctance to roll into CFs, potentially leading them to lose out on positive NPV investments. Finally, the skills and incentives of GPs, and their unique abilities to improve portfolio firms' values, are unique, hard to measure, and cannot be easily contracted on.

Part of the reason why private markets have grown so rapidly and have become increasingly important in the economy is that they have developed a set of institutions that overcome contracting problems and facilitate valuable investments. Academic research has focused much effort on the effects of private equity on portfolio firms and on the returns earned by the funds. Yet, not much work has studied *why* funds are set up the way they are, what frictions lead to the institutional designs we observe, and how other frictions can change the contracting mechanisms.[8] This study of CFs highlights the way that we can identify the frictions that have led to a novel institutional design to address frictions in the private capital market.

[8] One paper that takes a first step toward addressing these questions is Axelson, Stromberg, and Weisbach (2009).

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Figures and tables

Figure 1. Dynamics in RVPI and RVPI to DPI ratio measured at funds' 10th anniversary.
This figure plots the average residual value to paid-in (RVPI) multiple and the ratio of year-ten RVPI to distributed to paid-in (DPI) multiple measured at funds' 10th anniversary. The sample includes global private equity and venture capital funds from MSCI-Burgiss, grouped into two-year vintage buckets. Variable definitions appear in Table 1.

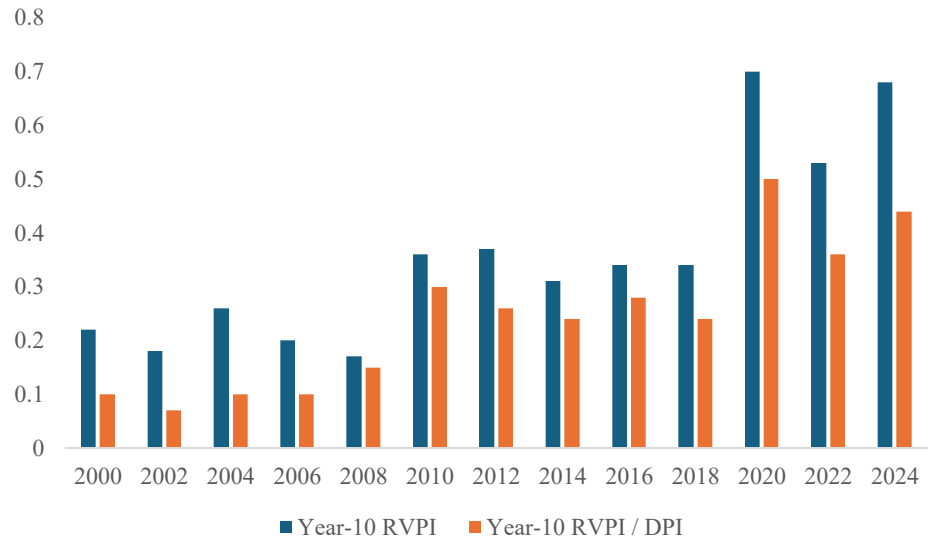


Figure 2. Overview of three liquidity generation actions.

This figure provides a schematic overview of how the economic interests in underlying fund assets are impacted by different liquidity generation actions. Panel A shows the baseline case with no action. Panel B depicts a transfer of an LP interest (an LP-led secondary), where an investor sells its fund stake to another LP. Panel C presents a secondary buyout or portfolio company sale, in which the fund exits an investment and returns cash to all LPs. Panel D illustrates a continuation fund transaction, where the GP sells selected assets to a new vehicle it manages, allowing existing LPs to either sell or roll their stakes.

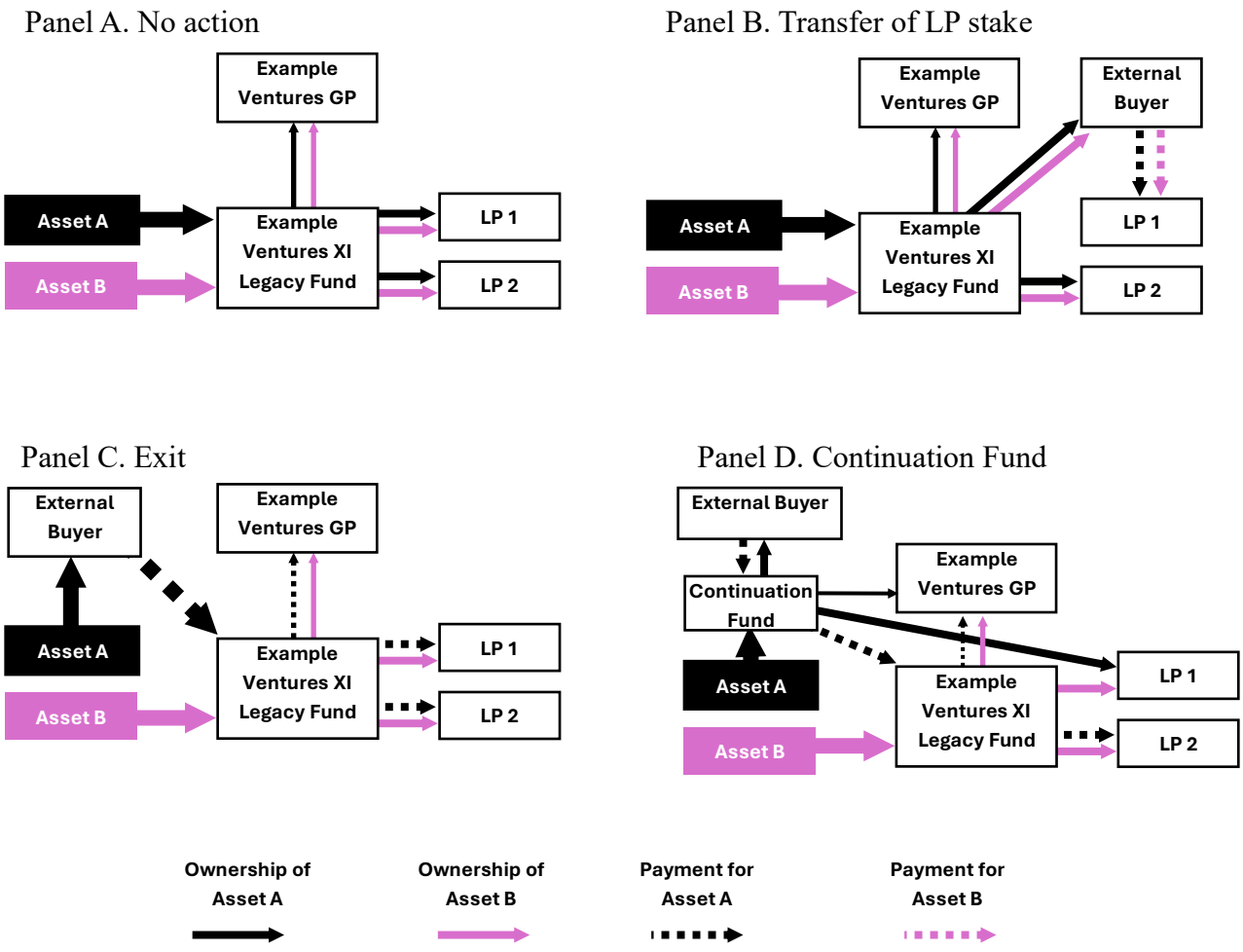


Figure 3. Equilibria Across Parameter Space

This figure illustrates the theoretical equilibria from the model as a function of general partner (GP) and limited partner (LP) patience parameters. Different regions of the parameter space correspond to distinct equilibrium outcomes. In areas where GP and LP preferences are well aligned, efficient fund extensions occur. When GPs are overly impatient or excessively patient relative to LPs, the equilibrium shifts to immediate liquidation (Never Continue). Continuation fund equilibria arise in the intermediate regions, where differential liquidity needs and rolled GP carry align incentives and make continuation funds an efficient solution.

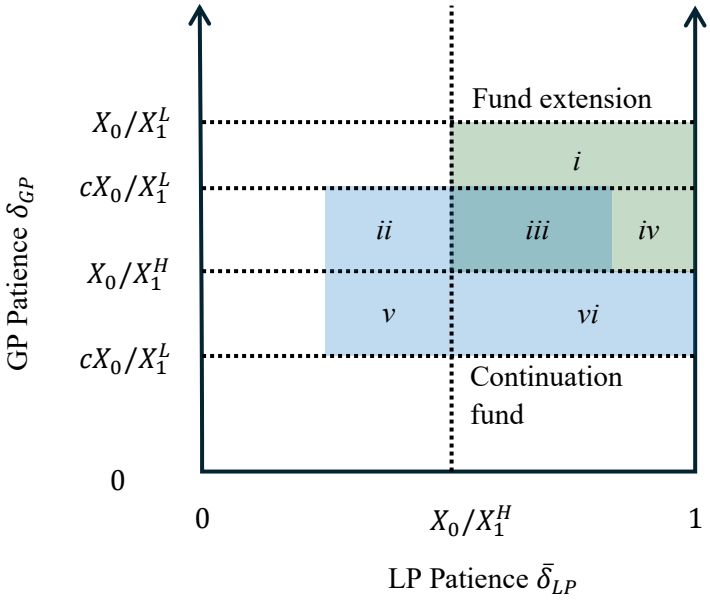
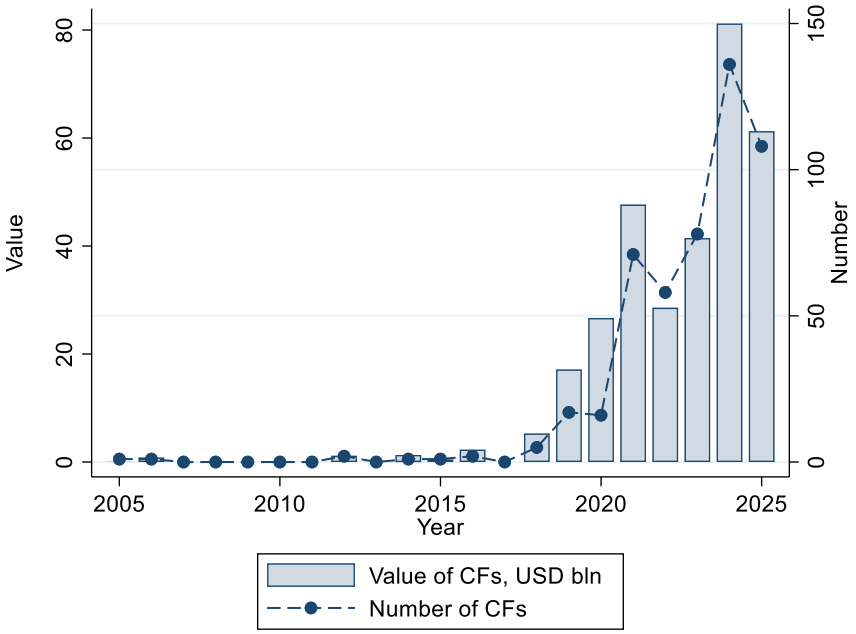


Figure 4. Trends in the market for continuation funds.

This figure plots the annual dynamics in the market for CFs. Panel A depicts the number and volume of continuation vehicles in our sample. The histogram represents the total fundraising for continuation vehicles, and the dashed line represents the associated number of funds. Panel B shows trends in the fraction of rolling investors. The histogram represents the fraction of LPs that chose to roll into CF, while the dashed line presents similar trend based on public plans only. Data come from Preqin and Pitchbook.

Panel A Value and count of CFs



Panel B Trends in the fraction of rolling investors

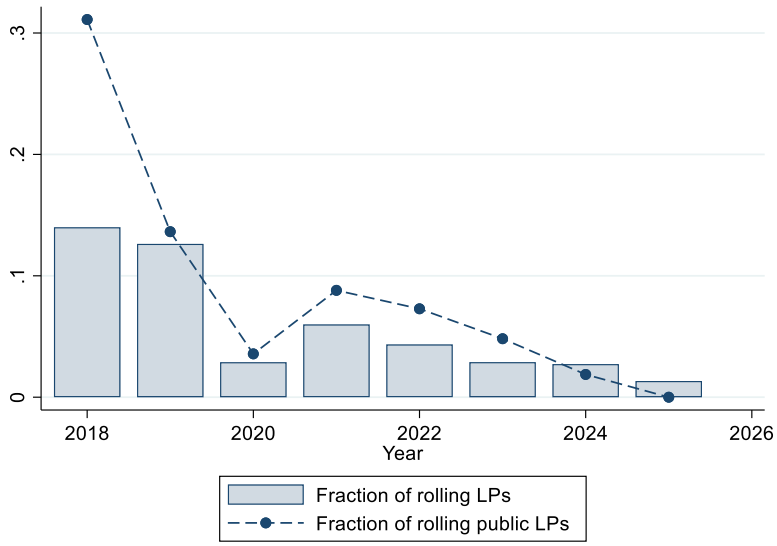


Figure 5. Continuation vehicles by firm type.

This figure plots the distribution of continuation vehicles by firm type. Blue bars show the distribution of continuation funds, orange bars capture the distribution of all private equity funds in Pitchbook.

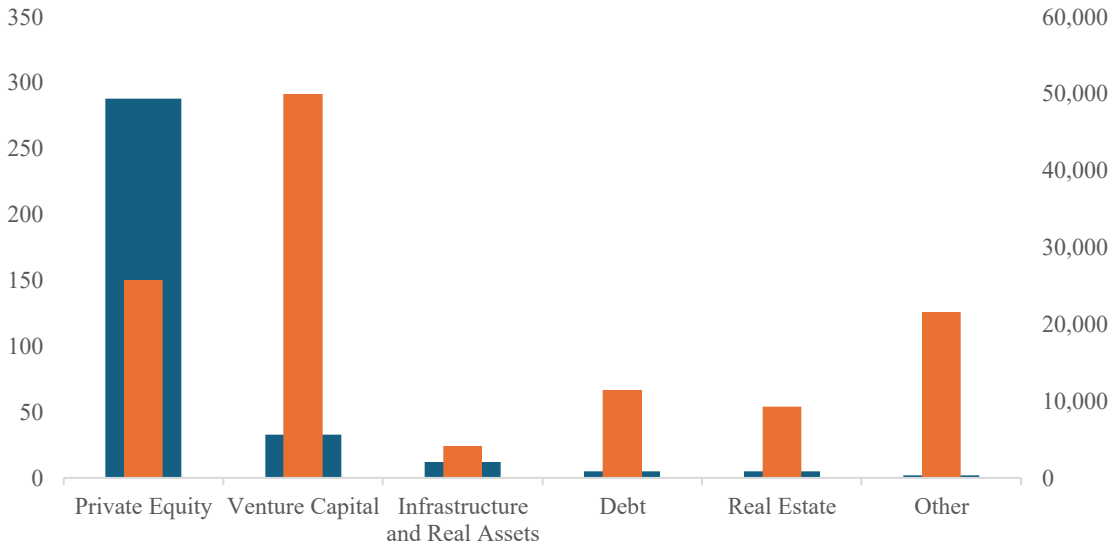


Figure 6. LP composition: all legacy investors, rolling investors, new investors.
This figure plots the aggregate LP composition across funds and LPs involved in the asset transfer: LPs of legacy funds, rolling LPs of legacy funds, and new LPs.

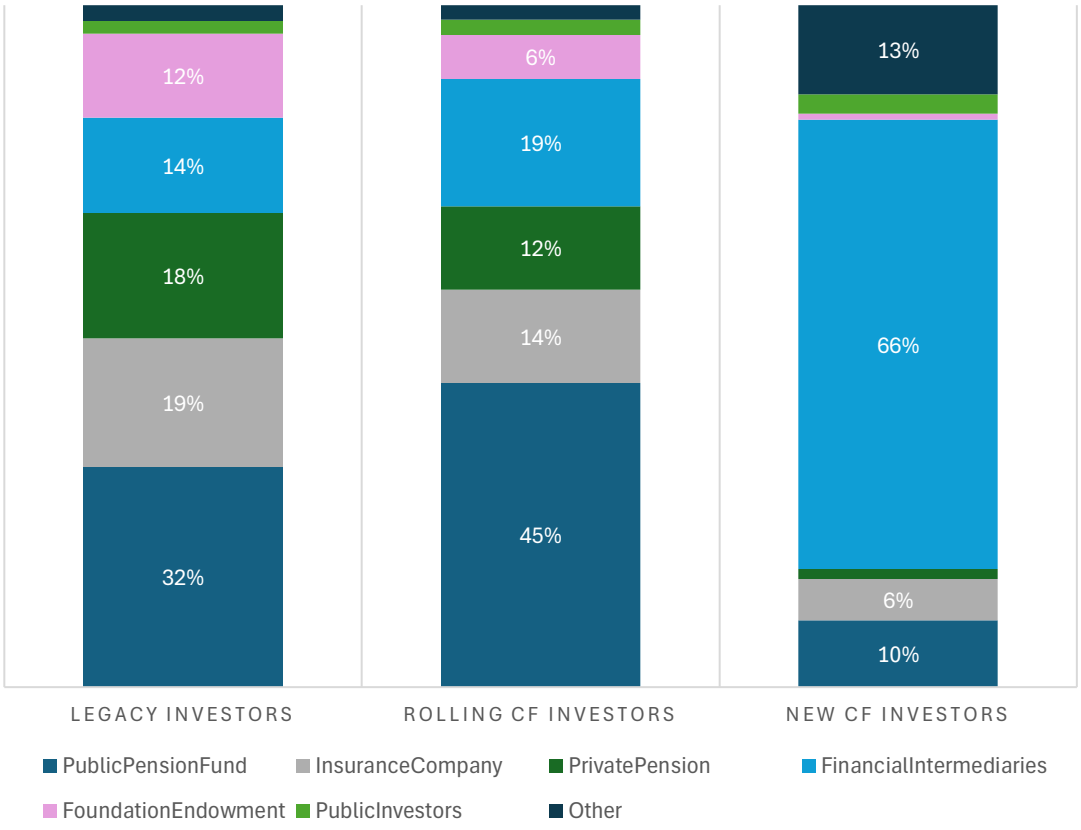


Table 1. Variable definitions.

Variable	Description	Source
CF	Subscript indicating a continution fund variable	
LF	Subscript indicating a legacy fund variable	
ADV AssetsValued	Whether the assets in the fund are independently valued	Form ADV
ADV GPAUM	The AUM of the general partner of the fund in billons of dollars.	Form ADV
ADV SponsorOwnership (CF, LF)	Sponsor percentage ownership of the fund	Form ADV
Create CF	Indicator for whether the legacy fund creates a CF in a given year.	Pitchbook, Preqin
DealSize SumDealSizes	Deal size scaled by the sum of the fund's deal sizes. Deal size is sometimes the size of the company, and thus for VC funds it often exceeds fund size.	Pitchbook
DealTypeis_	Type of deal in the fund (Growth, Other, Platform, Secondary, VC, Buyout)	Pitchbook
DeltaDealSize	change in deal size from legacy fund to continuation fund	Pitchbook
DiffInceptionYears	Continuation fund inception year minus prior fund inception year.	
DPI	Distributed capital to paid in capital in a given year. Net Multiple = DPI + RVPI	Pitchbook, Preqin
DPI_TVPI	DPI scaled by the total fund multiple. Measures how much of fund value has been paid out.	Pitchbook, Preqin
Electionpd (CF, LF)	The length of time in years from open to close of the fundraising period for the fund.	
FundSize (CF, LF)	Initial size of the continuation fund in billions of dollars	
FundType	(Buyout , Growth, Venture, Other)	Pitchbook, Preqin
InCarry	Indicator variable for whether the fund IRR is greater than 8% in a given year.	
IRR (CF, LF)	The net IRR of the fund	
LPAUM	The AUM of the limited partner	Pitchbook, Preqin
NetMultiple (CF, LF)	The net multiple of the fund in a given year. Net Multiple = DPI + RVPI	Pitchbook, Preqin
New	Indicator for whether an LP in the continuation fund is new	Pitchbook, Preqin
OneToOne	Indicator for a continuation fund that has one predecessor fund and that predecessor fund has one continuation fund.	Pitchbook, Preqin
Past2YRollDecisions	The average of Roll for the LP's other CF roll decisions in the CF year and the preceding year. It is missing in many cases because most LPs do not face that many roll decisions.	Pitchbook, Preqin
Profitable	Indicator variable for whether the portfolio asset reports a positive net income in a given year	Pitchbook
Revenue	The revenue of the fund asset in a given year	Pitchbook
Rev EV	Revenue scaled by enterprise value of the fund asset in a given year	Pitchbook
Roll	Indicator for whether that LP rolls into the continuation fund	Pitchbook, Preqin
RVPI	Residual value to paid in capital of a fund in a given year. Net Multiple = DPI + RVPI	Pitchbook, Preqin
SingleAsset	Indicator for whether the continuation fund is a single-asset fund	Preqin, Pitchbook
sizeCF sizeLF	The size of the continuation fund scaled by the size of the legacy fund.	Pitchbook, Preqin
TotalFundInvestments (CF, LF)	The total number of investments of the fund, including add-on acquisitions. Note that single-asset continuation funds can have more than one asset if they subsequently purchase more assets, through e.g. add-on acquisitions.	

Table 2. Sample descriptive statistics

This table presents summary statistics for the main sample of legacy and continuation funds, portfolio assets, and limited partners. Panel A compares continuation funds (CFs) and their matched legacy funds (LFs) along key characteristics. Panel B reports fund-level variables used in the hazard model of CF formation. Panel C summarizes asset-level characteristics for portfolio companies held by legacy funds, including deal type and size. Panel D provides LP-level statistics underlying the analysis of rollover decisions.

VARIABLES	mean	p10	p50	p90	sd	N
Panel A. CFs vs LFs comparisons						
FundSize_CF	0.789	0.08	0.487	1.9	0.857	381
FundSize_LF	2.273	0.146	0.806	5.6	3.731	257
SingleAsset	0.671	0	1	1	0.471	292
DiffInceptionYears	8.634	4	8	14	3.599	257
Electionpd_CF	0.29	0.0219	0.115	0.864	0.346	180
Electionpd_LF	1.147	0.192	1.004	2.381	0.828	189
IRR_CF	20.58	1.39	16.61	51.68	29.08	77
IRR_LF	17.83	3.72	16.41	34.88	14.06	185
NetMultiple_CF	1.492	0.997	1.344	2.365	0.571	100
NetMultiple_LF	1.951	1.145	1.778	2.998	0.941	195
ADV_SponsorOwnership_CF	9.475	1	5.762	24	11.73	141
ADV_SponsorOwnership_LF	6.757	1	3	11	14.04	141
TotalFundInvestments_CF	4.147	1	2	9	6.839	251
TotalFundInvestments_LF	42.42	6	28	90	51.77	245
Panel B. Fund-level analysis						
RaiseCF	0.00208	0	0	0	0.0455	42,385
FundSize	0.85	0.0503	0.3	1.85	1.876	42,385
LPHerfindahl	0.424	0.17	0.333	1	0.275	38,660
DPI	0.809	0	0.58	1.8	0.901	41,130
RVPI	0.847	0.0042	0.834	1.515	0.85	40,717
DPI_TVPI	0.453	0	0.394	0.997	0.359	40,486
IRR	14.23	-1.2	12.4	30.8	21.22	38,465
InCarry	0.685	0	1	1	0.465	38,465
Panel C. Asset-level analysis						
DeltaDealSize	4.053	0	1.394	7.123	12.69	46
PartnerSame	0.532	0	1	1	0.501	124
Revenue	2,178	5.188	117.5	1,304	18,022	390
Profitable	0.699	0	1	1	0.459	309
Rev_EV	1.53	0.0667	0.321	2.033	6.063	91
DealSize_SumDealSizes	0.0851	2.57E-05	0.000383	0.187	0.263	693

Panel D. LP-level analysis

Roll	0.057	0	0	0.2	0.105	114
New	0.731	0	1	1	0.373	114
FundSize_CF	0.684	0.146	0.467	1.5	0.623	103
FundSize_LF	1.646	0.219	0.652	4.188	2.703	114
DeltaOwnership	0.0369	-0.054	0.0254	0.17	0.149	38
DeltaVintage	8.307	4	8	13	3.416	114
Electionpd_CF	0.271	0.0192	0.0768	0.796	0.346	63
ADV_AssetsValued	3.922	0	0	0	19.6	51
ADV_SponsorOwnership	9.804	1	5.881	25.73	10.86	50
ADV_SponsorOwnership_LF	4.992	1	2.731	9	8.494	59
ADV_GP_AUM	12.99	1.121	3.421	30.53	23.9	51
LPAUM	147,484	10,444	69,948	251,781	409,729	110
sizeCF_sizeLF	0.97	0.172	0.651	1.87	1.562	103

Table 3. GP decision to start a continuation fund.

This table studies the associations between basic fund characteristics and the propensity to raise continuation vehicles. Funds must have annual performance data in Preqin and must be at least 3 years old with vintages between 2004 and 2022. The regression represents a Cox proportional hazard model of the propensity to start a CF in a given year, with odds ratios reported. Parentheses contain heteroskedasticity robust standard errors clustered at the vintage year level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively. Variable definitions appear in Table 1.

	(1)	(2)	(3)	(4)	(5)
	Create	Create	Create	Create	Create
VARIABLES	CF	CF	CF	CF	CF
FundSize	1.145***	1.130***	1.140***	1.140***	1.128***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
FundTypeBuyout	9.998***	7.689***	10.76***	6.864***	7.508***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
FundTypeGrowth	4.460***	4.199***	4.730***	4.104***	4.401***
	(0.00)	(0.01)	(0.00)	(0.01)	(0.01)
FundTypeVenture	1.312	1.168	1.420	1.403	1.579
	(0.66)	(0.81)	(0.56)	(0.58)	(0.45)
LPHerfindahl		0.358*		0.320*	0.379
		(0.08)		(0.06)	(0.11)
DPI	1.143	1.196*			
	(0.20)	(0.06)			
RVPI	1.136***	1.139***			
	(0.00)	(0.00)			
DPI_TVPI			0.448*		
			(0.10)		
IRR_0_5				0.982	
				(0.98)	
IRR_5_10				1.529	
				(0.52)	
IRR_10_15				2.947*	
				(0.08)	
IRR_15_20				2.376	
				(0.18)	
IRR_20_25				4.305**	
				(0.02)	
IRR_gt_25				5.716***	
				(0.00)	
InCarry					3.064***
					(0.00)
Observations	40,329	36,952	40,312	34,871	34,871
Vintage FE	YES	YES	YES	YES	YES

Table 4. Asset-level evidence: probability of transfer conditional on raising a CF

This table studies how the ex-ante characteristics of the deals that will be transferred into continuation vehicles in the future differ from that GP's other investments, looking at both characteristics at the time of first investment. The dependent variable is an indicator variable equal to one if the asset was transferred into a continuation fund in the future. Variable definitions appear in Table 1. Parentheses contain heteroskedasticity robust standard errors clustered at the legacy fund level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

VARIABLES	(1) Transfer Indicator	(2) Transfer Indicator	(3) Transfer Indicator	(4) Transfer Indicator	(5) Transfer Indicator	(6) Transfer Indicator
YearsAfterVintage	-0.00150	0.00486	0.00113	0.0359	0.00256	-0.00153
	(0.64)	(0.69)	(0.93)	(0.13)	(0.41)	(0.63)
DealTypeis_Buyout					-0.000148	0.00575
					(0.99)	(0.71)
DealTypeis_VC					-0.0652**	0.00232
					(0.03)	(0.92)
DealTypeis_Growth					-0.00935	0.0291
					(0.78)	(0.29)
DealTypeis_Secondary					0.0604	0.0617
					(0.48)	(0.38)
DealTypeis_PlatForm					0.101	0.0106
					(0.23)	(0.30)
DealSize_SumDealSizes	1.104***					1.104***
	(0.00)					(0.00)
LogRevenue		0.00840				
		(0.44)				
Profitable			-0.0490			
			(0.31)			
Rev_EV				0.00167		
				(0.43)		
Observations	675	353	288	68	1,586	675
R-squared	0.830	0.240	0.223	0.285	0.118	0.831
Fund FE	YES	YES	YES	YES	YES	YES

Table 5. LP decision to roll into the continuation fund.

This table studies the associations between LP decision to roll its stake into continuation fund and various fund and LP-level characteristics. The dependent variable is an indicator for whether the LP rolls into the continuation fund. Panel A explores rollover decisions of all investors, while Panel B specifically focuses on public pensions. Variable definitions appear in Table 1. Standard errors are clustered by continuation fund vintage year. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Panel A. All LPs

VARIABLES	(1) Roll	(2) Roll	(3) Roll	(4) Roll	(5) Roll
FundSizeCF_to_LF	0.00913	0.00743	0.00202	0.109*	
	(0.39)	(0.44)	(0.56)	(0.07)	
SingleAsset	-0.0377*	-0.0649***	0.0332	-0.0680	
	(0.06)	(0.01)	(0.31)	(0.49)	
DeltaVintage	-0.00398**	-0.00778***	0.00140	-0.00518	
	(0.02)	(0.01)	(0.76)	(0.31)	
Electionpd_CF		0.0393**	0.116	-0.158	
		(0.04)	(0.16)	(0.17)	
ADV_AssetsValued			-0.000503	0.000367	
			(0.26)	(0.73)	
ADV_GP_AUM			-0.000884**	0.00237	
			(0.04)	(0.21)	
DeltaOwnership			-0.170	0.500	
			(0.55)	(0.24)	
InCarry			0.147**	-0.0599	
			(0.02)	(0.46)	
ContempRollDecisions				0.393**	0.358***
				(0.03)	(0.00)
NonContempRollDecisions				0.0237	0.0970***
				(0.76)	(0.00)
Observations	2,424	1,610	752	368	1,285
R-squared	0.039	0.042	0.054	0.136	0.201
Fund FE	YES	NO	NO	NO	YES
LP Type FE	YES	YES	YES	YES	YES
Vintage FE	YES	YES	YES	YES	YES

Panel B. Public LPs

VARIABLES	(1) Roll Public Pensions	(2) Roll Public Pensions	(3) Roll Public Pensions	(4) Roll Public Pensions	(5) Roll Public Pensions
FundSizeCF_to_LF	0.00442	0.00343	-0.001000	-0.00210	
	(0.70)	(0.75)	(0.89)	(0.43)	
SingleAsset	-0.0730*	-0.131**	-0.137**	0.0603	
	(0.06)	(0.01)	(0.02)	(0.26)	
DeltaVintage	-0.00699***	-0.0152***	-0.0144**	-0.00366	
	(0.01)	(0.01)	(0.04)	(0.79)	
Electionpd_CF		0.106***	0.0976**	0.354	
		(0.00)	(0.02)	(0.22)	
ADV_AssetsValued				-0.00160**	
				(0.05)	
ADV_GP_AUM				0.000980	
				(0.11)	
DeltaOwnership				-0.433	
				(0.57)	
InCarry			0.0144	0.169**	
			(0.83)	(0.03)	
ContempRollDecisions					0.547***
					(0.00)
NonContempRollDecisions					0.0509
					(0.35)
Observations	776	485	446	250	513
R-squared	0.076	0.071	0.076	0.077	0.295
Fund FE	NO	NO	NO	NO	YES
LP Type FE	YES	NO	NO	NO	NO
Vintage FE	YES	YES	YES	YES	YES

Table 6. Preliminary evidence on the performance of CFs.

This table studies return characteristics of continuation funds. This analysis considers all funds with performance data in Preqin with vintages between 2004 and 2020. Variable definitions appear in Table 1. Panel A compares returns of CFs to their LFs, and Panel B compares returns of CFs to all other funds. Parentheses contain heteroskedasticity robust standard errors clustered at the vintage year level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Panel A

	CF	LF	t-stat	N
Net IRR	23.9	19.3	.9	37
Net Multiple	1.59	2	-3.18	41

Panel B

VARIABLES	(1) Net IRR	(2) Net Multiple
CF	-0.00487	0.145
	(1.00)	(0.16)
Observations	9,071	9,783
R-squared	0.050	0.072
Fund Type FE	YES	YES
Vintage FE	YES	YES

Online Appendix

PROOF OF THEOREM 2.2.1:

Working backward, suppose a fund extension was granted. A type T GP will keep the asset private if $\lambda_{LF}X_0 \leq \delta_{GP}\lambda_{LF}X_1^T$. Given the assumed LP preferences, the LP will offer a fund extension only if only the type H GP keeps the asset private. The incentive compatibility conditions then directly imply the range of the given efficient fund extension parameters.

PROOF OF THEOREM 2.2.2:

First, consider an equilibrium where only type-H GPs proposes a CF. Given that, the type L agent's type is revealed and they must sell immediately on the equilibrium path.

The price is the secondary investors discounted cash flow,

$$P = \delta_{SI}\,(1-\lambda_{CF})\,X_1^H.$$

If the CF is approved, each LP's utility is

$$\max\{\delta_{SI}\,,\delta_{LP}^i\}(1-\lambda_{CF})(1-\lambda)\,X_1^H$$

and if it is blocked each LP's utility is

$$(1-\lambda_{LF})X_0 \quad \text{if} \quad \lambda_{LF}X_0 > \delta_{GP}\lambda_{LF}X_1^H 0$$

and

$$(1-\lambda_{LF})\delta_{LP}^i X_1^H \quad \text{if} \quad \lambda_{LF}X_0 \leq \delta_{GP}\lambda_{LF}X_1^H.$$

Aggregating and scaling by $(1-\lambda_{LF})X_1^H$, LPs will approve the CF if

$$(1-\lambda_{CF})\int \max\{\delta_{SI}\,,\delta_{LP}^i\}\,di \geq \bar{\delta}_{LP} - \mathbf{I}[X_0 > \delta_{GP}X_1^H]\left(\bar{\delta}_{LP} - \frac{X_0}{X_1^H}\right).$$

Rearranging, this becomes point ii in the efficient continuation fund equilibrium:

$$\lambda_{CF}\int \max\{\delta_{SI}\,,\delta_{LP}^i\}\,di \leq \int \max\{\delta_{SI} - \delta_{LP}^i, 0\}\,di + \mathrm{I}[X_0 > \delta_{GP}X_1^H]\,(\bar{\delta}_{LP} + X_0\,/X_1^H).$$

For this equilibrium to be incentive compatible for the type-H GP we need that

$$\lambda_{LF}X_0 \leq \lambda_{LF}\,\delta_{SI}\,(1-\lambda_{CF})\,(1-\rho)\,\mathrm{X_1^H} + \delta_{GP}\,(\lambda_{LF}\rho + (1-\lambda_{LF}\,\rho)\lambda_{\mathrm{CF}})\,\mathrm{X_1^H}$$

and for the type-L GP we need that

$$\lambda_{LF}X_0 \geq \lambda_{LF}\,\delta_{SI}\,(1-\lambda_{CF})\,(1-\rho)\,\mathrm{X_1^H} + \delta_{GP}\,(\lambda_{LF}\rho + (1-\lambda_{LF}\rho)\,\lambda_{\mathrm{CF}})\,\mathrm{X_1^L}.$$

For $\rho = 0$, the type-L GP incentive compatibility condition becomes

$$\lambda_{LF}(X_0 - \delta_{SI}\,(1-\lambda_{CF})\mathrm{X_1^H}) \geq \delta_{GP}\lambda_{\mathrm{CF}}\mathrm{X_1^L}$$

which cannot hold because $\delta_{SI}(1-\lambda_{CF})\mathrm{X_1^H} > X_0$. Thus, we cannot have a CF if $\rho = 0$ for i).

For $\rho = 1$, the two incentive compatibility conditions simplify to

$$\delta_{GP}\ (\lambda_{LF} + (1 - \lambda_{LF})\lambda_{\mathrm{CF}})\ \mathrm{X}_1^{\mathrm{H}} \geq \lambda_{LF} X_0 \geq \delta_{GP}\ (\lambda_{LF} + (1 - \lambda_{LF})\lambda_{\mathrm{CF}})\ \mathrm{X}_1^{\mathrm{L}}.$$

Rewriting

$$c\frac{X_0}{\mathrm{X}_1^{\mathrm{L}}} \geq \delta_{GP} \geq c\frac{X_0}{\mathrm{X}_1^{\mathrm{H}}}$$

for

$$c = \frac{\lambda_{LF}}{\lambda_{LF} + (1 - \lambda_{LF})\lambda_{\mathrm{CF}}}$$

and iii).

Second, suppose that neither type of agent proposes a CF in equilibrium. If the LPs believe that only the type-L agents seek CF, then the game reduces to the game in Theorem 2.2.1 and the same equilibria exist. Other beliefs by the LPs make having a CF more attractive and tighten the incentive compatibility bounds.

Third, if both types of agent propose identical CF structures, it similarly hurts the LP to approve it and so it is rejected and the game reduces to the game in Theorem 2.2.1.

Fourth, suppose that only the type-L GP proposes a CF. That CF cannot be approved, and we end up with the same equilibria as Theorem 2.2.1. If the type-L GP prefers the asset stay private, the asset cannot stay private in equilibrium as otherwise the type-L GP seeking the CF in the first step is not incentive compatible. If the type-H GP prefers the asset exit immediately, then the asset must be sold immediately in equilibrium.

Fifth, suppose that the type-L and type-H GP propose CF with different parameters. The CF of the type-L GP cannot be approved, so this is equivalent to the first case.

Figure OA1. Investors' Liquidity Options in Private Equity: Typology by Liquidity Source and Affected Investors.

This figure shows the main ways in which investors can obtain liquidity in private equity, classified by whether the option is asset-level vs. fund-level and whether it affects individual LPs or all LPs within the fund.

	LP-specific	All LPs
Asset-specific	**Continuation Fund** Rolling a single (or small set of) portfolio company(ies) into a new vehicle, allowing existing LPs to sell or roll.	**Secondary buyout deal** Selling a portfolio company directly to another PE sponsor, returning cash to all LPs.
Fund-specific	**LP interest sale** Individual LP sells its fund interest on the secondary market; GP may facilitate the process.	**Fund liquidation / NAV lending** GP liquidates all holdings or raises financing against the fund's NAV, providing liquidity to all LPs.

Figure OA2. Distribution of transferred assets by industry of operation.

This figure plots the distribution of transferred assets by asset's industry of operation. Data come from Pitchbook.

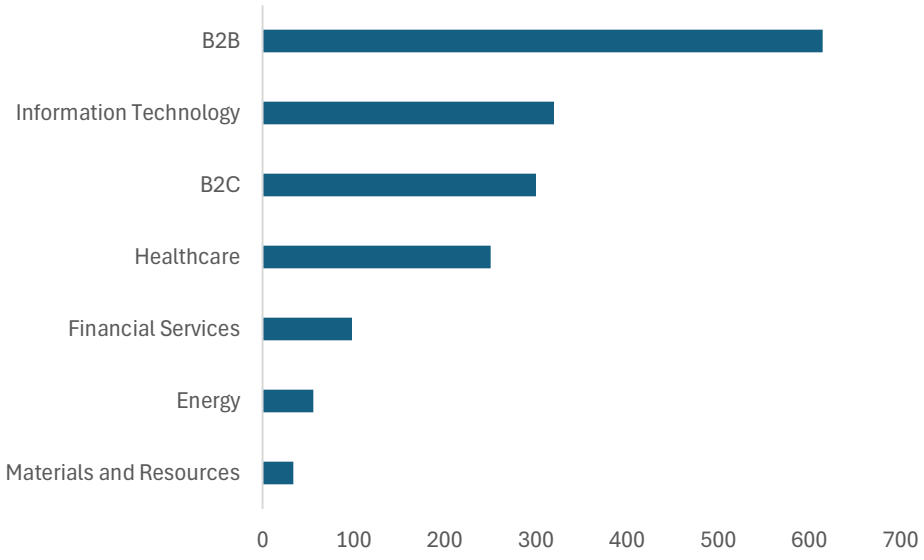


Table OA1. Fund-level LP composition.

This table compares continuation vehicles to other funds based on fraction of various LP types. This analysis considers all funds with performance data in Preqin with vintages between 2004 and 2020. Variable definitions appear in Table 1. Parentheses contain heteroskedasticity robust standard errors clustered at the vintage year level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)	(5)
	Fund	Proportion	Proportion	Proportion	Proportion
VARIABLES	Size	PublicPension	PrivateEquity	SovereignWealth	EndowmentFoundation
ContinuationFund	-1.186***	-0.231***	0.260***	-0.000634	-0.0697***
	(0.00)	(0.00)	(0.00)	(0.93)	(0.00)
Observations	22,436	22,436	22,436	22,436	22,436
R-squared	0.504	0.575	0.600	0.536	0.663
GP FE	YES	YES	YES	YES	YES
Vintage FE	YES	YES	YES	YES	YES
Fund Type FE	YES	YES	YES	YES	YES